RICHARD RUSSELL'S **DOW THEORY LETTERS, INC.**

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Nov. 23, DJIA 811.77; PTI 1101; A-D Ratio –19.76
Nov. 30, DJIA 822.35; PTI 1117; A-D Ratio –18.65

THE PICTURE: I must admit that of late I have harbored a hideous suspicion. The suspicion is that the market may not be the "fabulous bargain" that almost everyone now claims that it is. I know, I myself "proved" (see Letters 760,765) that they are literally giving the market away on the basis of price/earnings ratios, book value and yields. But over the last month I think I've read two dozen different reports, each showing how and why common stocks are in a great, historical buying area. Everyone agrees, that's clear.

If you haven't read it in an advisory service, this month's *Playboy* magazine has an article by Andrew Tobias which also espouses that "stocks are dirt cheap" philosophy. Can the Playboy "advisory" be as right about stocks as they are about men's fantasies? I'm dubious.

But let's not be **too** cute. The fact is that on the basis of many value gauges, stocks are selling at the very low end of the scale. Yet, I can't get out of my mind the old adage, "What EVERY ONE knows ceases to be a factor in Wall Street." Everyone knows that stocks are cheap. What could the catch be—if indeed there is a catch?

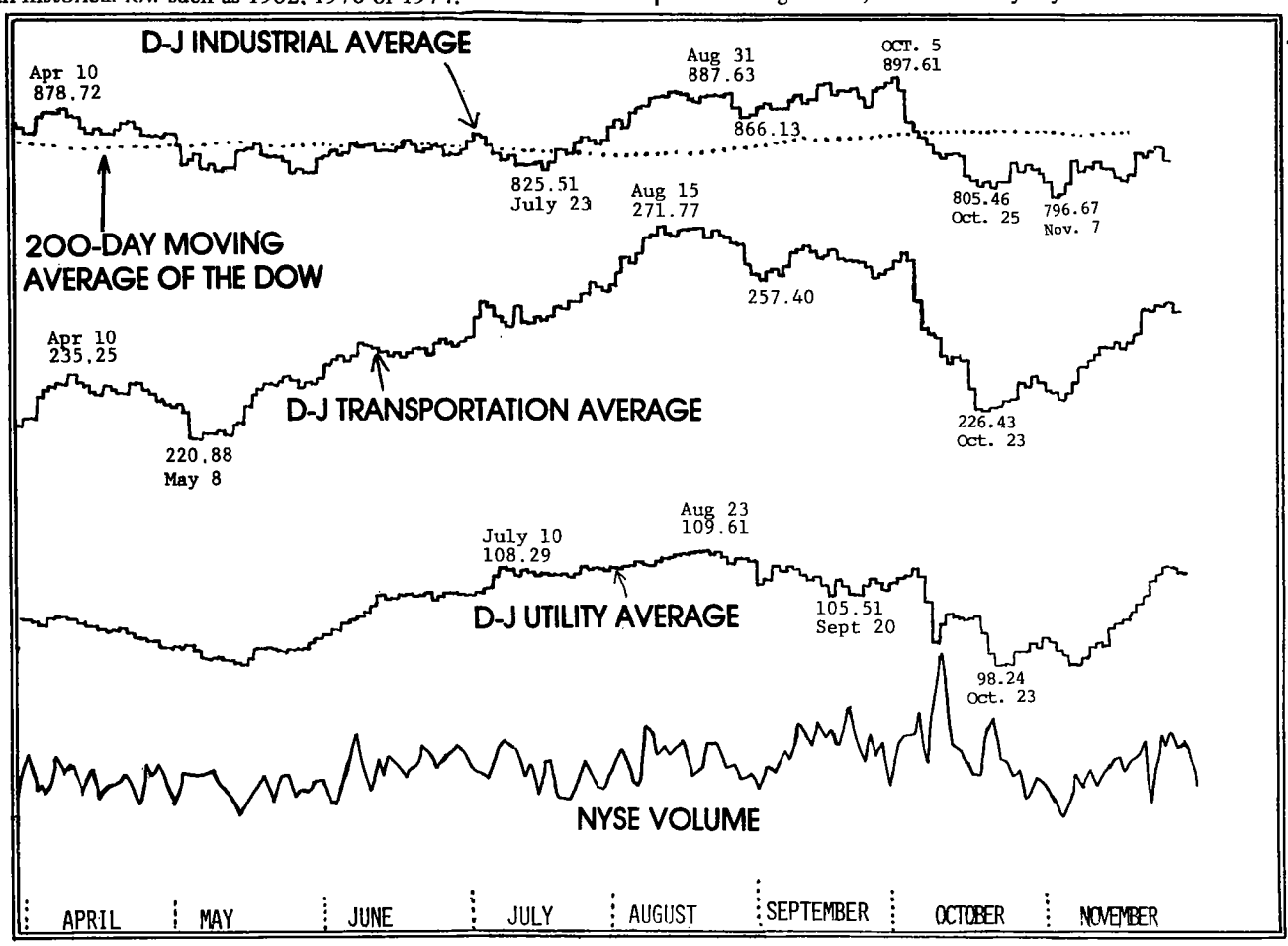
Here are the items that come to my mind. First, stocks are not at a major bottom as measured by my *technical* data (see Letter 769, page 4). The market may be at a secondary bottom, but NOT an historical low such as 1962, 1970 or 1974.

FRONT PAGE COMMENT: Why has the stock market been so ornery, so "spiteful" over the last year and longer? Why has the market skipped the 4.5 year cyclical bottom? Why has the Dow been making lower tops since 1976, yet refused to fall apart?

Taking the market at face value, one could say that the market has envisioned no big boom ahead, thus the Dow never bettered the 1976 high. On the other hand, the market saw no major recession ahead; therefore the lowest the Dow ever retreated to was 742.12 of February, 1978. The Dow low for 1979 was higher at 796.67.

It seems increasingly clear to me that the market is not following the widely-advertised script. The script calls for a "mild recession" starting around now and ending around mid-1980, just in time for the Elections. If this is the correct script, the market should be heading down now, preparatory to a late-1979 or early 1980 bottom. From there the market would turn up as Wall Street prepared to celebrate the "end of the 1979-1980 recession." My guts and my instinct tell me to forget that script. It just isn't happening.

The November 28 Wall Street Journal carried a comment from the firm of A. Gary Shilling & Co. Shilling & Co. has an excellent forecasting record, and what they say is of interest.



The second item that bothers me is that corporate liquidity is extremely low. In fact, it's at its lowest point in history, as you will note from the chart in the last Letter. Thus, if a recession does come next year the very low liquidity could produce some surprises. And they could be nasty surprises.

Third, stocks are historically cheap on the basis of P/E ratios, book values and yields. But stocks are not cheap in comparison with bonds. At present, the D-J 20 Bond Average provides a yield of 10.70% while the yield on the Dow is 6.19%. This is a yield spread of 4.51% in favor of bonds. The spread was much lower at previous major bottoms, and during most of those bottoms the spread was in favor of stocks–not bonds.

Finally, I don't like the fact that everybody (including many of the smartest in the business) is talking about a "mild recession" next year, and then an upturn in second-half 1980. How do they know it is going to be mild? How do they know what the effect of say a 30% rise in OPEC oil prices might be? At any rate, the mild recession thesis bothers me–it's too pat.

Where does all of this doubting and pondering leave me? Well, if I had to guess I would say that the upside potential of the market at this time is limited. For instance, I would be surprised if the Dow (on a rally) could get back above its 1979 high of 897.61. On the downside, I have no preconceived notions except that if the market is to produce a major oversold bottom (of the cyclical variety) I would guess that the Dow could break 700.

If forced to give an opinion on what is coming up, I would say that the Dow will remain in its 796 to 897 trading range for a while, but ultimately it will break below 796 as the decline to a cyclical bottom finally takes hold.

THE MARKET: The chart on page 1 is drawn to ratio scale, which means that all price movements are expressed in percentages. It is immediately apparent that the Industrial Average has **lagged** the other Averages in terms of rallying ability from the lows. The Transports and Utilities recorded their lows in late-October. The weaker Industrial Average struck its low a few weeks later in November. The final 796.67 Industrial low was not confirmed by the other Averages. This obvious non-confirmation signalled the rally which has taken us through most of November.

I said in the last Letter that one of the surest phenomenons in the market is the *automatic recovery following a panic decline*. On the basis of the recent October panic and on the basis of the many downside non-confirmations, I expected a rally that would recover at least half of the ground lost during October. If that is correct, we would normally expect an Industrial advance to **at least** the 845-850 level. The Transports have already recovered about half their losses and the Utility Average has recouped almost all of its August to October losses.

As has been the case ever since late-1976, the D-J Industrial Average is the laggard. It's the Average that continually tells us that "all is not well." Actually, in the face of the steel troubles, in the face of the auto sales slump, in the face of the slide in Sear's fortunes, it is remarkable that the Industrial Average has done as well as it has. But there's no point in dissecting the venerable Dow. It tells its story, and the story, so far, is that it doesn't want to boom and it doesn't want to die. So investors and traders have been putting their money into the smaller more growth-prone companies while leaving the "biggies", the "smokestack America" companies pretty much alone.

Most economic forecasts have the country in or on the brink of recession and foresee an economic recovery beginning sometime after mid-1980. That definitely isn't the kind of outlook held by economists at A. Gary Shilling & Co., a consulting firm.

Vincent J. Malanga, a senior economist at the firm, has just completed his latest forecast and it envisions "a major, deep and prolonged recession" that would exceed in severity any other since World War II, including the 1973-75 setback.

His recession forecast begins where most others leave off. He anticipates that the economy won't peak until the second or third quarter of 1980 and then will slide downward through most of 1981. "We see a good deal of momentum in the economy," Mr. Malanga says, "and believe it may be stronger over the near-term than poeple suspect."

From a peak in mid-1980 to the trough in late 1981, he expects gross national product, adjusted for inflation, to fall 6%. He places the peak-to-trough drop in after-tax corporate profits at 30.2%.

In the 1973-75 recession, the worst of the postwar period to date, real GNP fell 5.7% from peak to trough and profits dropped 14.2%. In several other recessions in the 1953-1973 period, real GNP declines ranged from 1.1% to 3.3% and profit declines ranged between 15% and 27%.

Mr. Malanga believes the current easing of interest rate pressures could continue another month or two but that rate declines will be minor. "As it becomes clear recession isn't taking hold as soon as people expect," he says, "we would think rates will rise back up to their previous peak."

If the Shilling forecast is the correct one (and it wouldn't surprise me if it were), then we can expect (1) a decent market for a while, but no new highs in the major Averages during the rest of 1979 or in 1980, (2) trouble on Wall Street during early or in mid-1980 with a major bottom appearing in late-1980 or even early-1981, (3) I also agree with Shilling in that the current drop in interest rates is going to be quite **limited** in scope.

Turning to the page 3 chart, we note that the Primary Trend Index (PTI) has now recovered 45 of the 73 points it lost during the October panic. Moreover, the PTI did not break its major uptrend line during the panic. Thus, if we look at the PTI as a scale (a balance) that is continually weighing the build-up or deterioration of the technical forces, the conclusion is that the damage during October was not as bad as it seemed, and the recovery so far is progressing rather well.

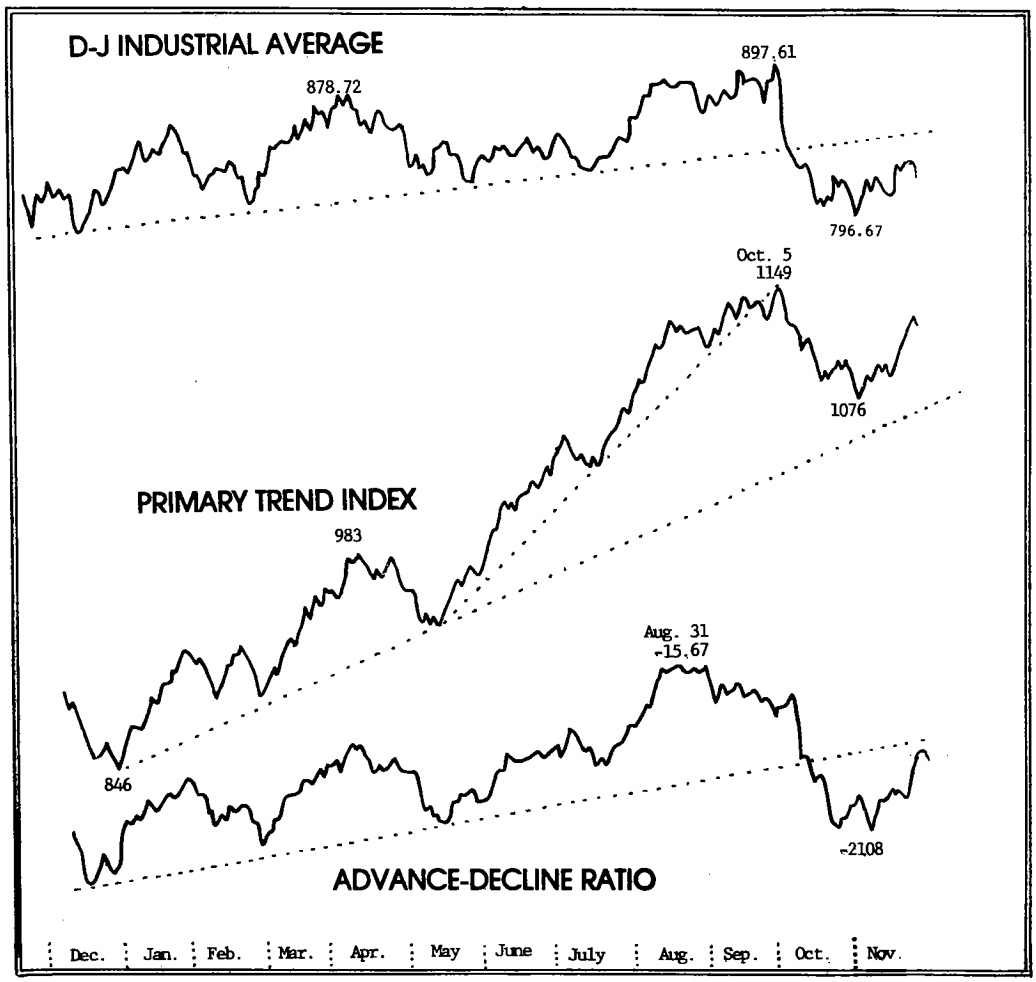
The widely-followed A-D ratio was badly damaged during October, and its long rising trendline was decisively broken. But at this point in time I'm giving more credence to my own PTI (which only my subscribers follow), and the verdict here is "so far, so good." The PTI deserves a bullish label as long as it holds above its rising trendline. And as of this writing, it certainly has been holding.

Conclusion: I've been watching markets for 35 years, and I'd say that during 25% of that time the indications were clear, very clear. During 50% of that period it paid to just "go along" with the last major signal or prevailing trend. If the last major signal was bullish, be a bull. If the last major signal was bearish, be a bear. During the remaining 25% of the time the trend was unclear, fuzzy, mystifying. I place the present period in that latter 25%.

The D-J Averages are not telling a clear story regarding the primary trend. The latest downside test passed bullishly in that Transports would not confirm the Industrial weakness, and on this reading the market would appear to be in a secondary rallying phase. Certainly, the market has given a good account of itself in the face of shocking news.

The PTI seems to have an ability to cut through the fog and so far the PTI remains in a bullish trend. I don't know how strong bullish the trend is or how long it will stay bullish, but I'll stick with the PTI. In the past, when I thought my own opinion was superior to the PTI, I regretted it. Therefore, according to my own barometer, the weight of evidence goes to the bulls.

MONEY, COMPOUNDED: If you, as a subscriber, never learn another thing from me, I would like you to learn this lesson. Perhaps I should start with a few anecdotes. A man rushed into the office of his hard-nosed investment advisor and shouted, "I just saw my banker jump out of the fifteenth story window!



There are very few money managers who will be able to match that figure by 1992. How do I know? I know because history tends to repeat, and history and statistics say that mighty few money managers can compound money at 12% for a period of 13 years.

And that is (1) why stocks have a hard time moving today, regardless of P/E ratios and book values, (2) why rising interest rates are such dynamite as far as comparative investments are concerned, (3) why the stock/bond yield relationship has to be watched so carefully, (4) why money managers who are prejudiced in favor of common stocks are sweating so profusely today.

CHART STORY: When I was a lot younger, I guess I was in high school, I made up my mind that I was going to be a great artist (nobody ever decides to be just an artist, it's always a "great" artist). I joined the famous Art Student's League in NYC and painted my little heart out. Somewhere along the line the flame went out–or was it that I realized that I wasn't going to be another Van Gogh. But I did keep one thing. I have always liked visual representations. I like to SEE what's going on.

Does he know something I don't know? What should I do?" The advisor immediately answered, "Follow him, there's money to be made down there!"

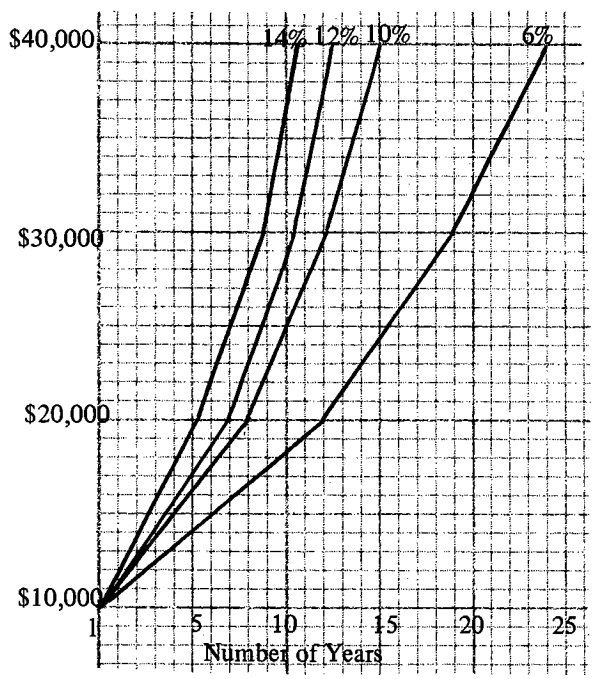
One of the older Rothschild's (of the famous banking family) was once asked to name the 7 wonders of the world. "I don't know what the first 7 are," he replied, "but I know what the 8th is–it's compound interest."

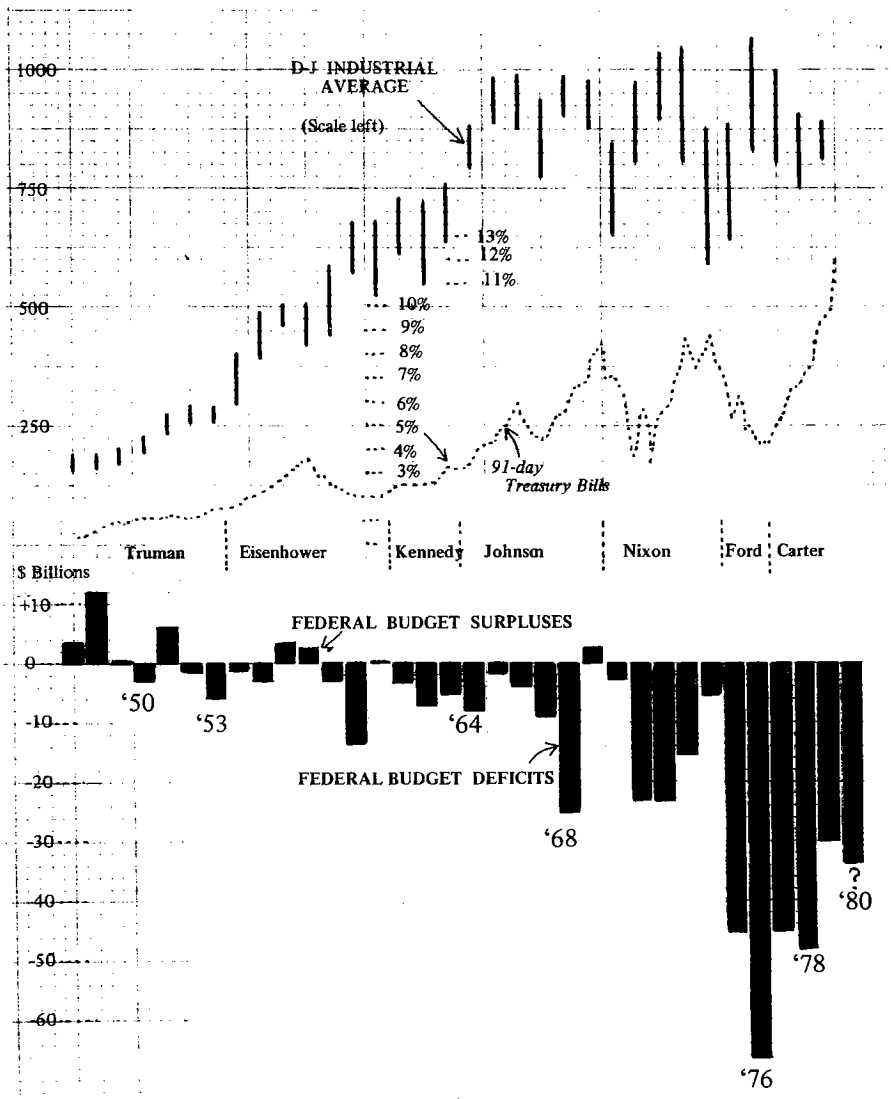
I've been trying to get the meaning and power of high interest rates and compound interest over to my subscribers. It's hard because people tend to think in terms of "action" and "excitement" and "winning" rather than in hard, cold terms of making money. This week I drew this little chart. It shows a starting sum of $10,000 and the **time** (number of years) it takes for that $10,000 to double (to $20,000) then to triple (to $30,000) and finally to quadruple (to $40,000). The chart shows this time span in terms of an investment at 14% interest, 12%, 10% and 6%. I chose 14, 12 and 10% because these are all rates that are available today. I use 6% because that is the average yield on the 30 Dow Industrials.

Note that it takes almost 24 years at 6% for the $10,000 to reach $40,000. But at 10% it takes less than 15 years, at 12% it takes less than 13 years and at 14% it takes just over 10 years. That's what most bankers and almost all rich men know. Now you know it!

Now 12% is readily available today in the form of fairly good bonds. If you have a pension fund (tax deferred) and you put $10,000 in those bonds today, you'll have $40,000 by 1992.

A few nights ago I awoke with a strange and exotic thought. Suppose some one said to me, "Russell, I want you to draw a simple chart showing what's happened to the US since World War II. Do it!" So after a few days of pondering, I set to work. This is what I drew (see page 4 chart).





Here you see the period of 1947 to the present. I have divided this span in terms of US Presidents. We've had 7 Presidents since 1947. here's how I would characterize them. **Truman**: tough little guy, honest and sincere. Lacked stature, but made up for it with courage. **Eisenhower**: a war hero, ineffective and stodgy. Only moved when pushed–even then he resisted. **Kennedy**: a flash, a sparkle. I always felt that his Administration would have been a disaster had he lived. **Johnson**: headstrong, bullying, ignorant of economics, a study in arrogance and frustration. **Nixon**: bright but disastrously neurotic. Amazing schizophrenic split when it came to his position on wordly morality as opposed to his own morality. A frightened man. **Ford**: good guy, liked by everyone, well-meaning, average intelligence. Ford's failing was that he was utterly inarticulate. **Carter**: his flaw was and is his arrogance. Took the Presidency with absolutely no idea of its difficulty. Afraid to take a stand, fuzzy, probably because he lacks real conviction on almost every issue.

When a man goes into debt over his head, it (among other things) implies a lack of character or some other major failing. Maybe that's what happened to the US under its last six Presidents. At any rate, what we see here is a build-up of US budgetary deficits, a build-up that continued all through the 1940's, 1950's and 1960's. During the era of the '40's to '60's the debt accumulation was limited and a great bull market was in force on Wall Street. As the deficits accumulated, the yield on US Treasury bills (interest rates) climbed steadily higher–from under 1% in 1947 to almost 6% in 1966.

In 1968, with President Johnson's war AND butter program in full swing, the first monster deficit appeared, $25.2 billion in 1968. A minor surplus emerged in 1969, but in 1970 (under Nixon) a $2.8 billion deficit crept in again. From 1971 to the present, with but a single exception (1974) the Federal deficit has never been below $14 billion! Even with the ending of the VietNam War the budget deficits continue to pile up.

President Carter was elected on a platform of balancing the budget by 1981. The 1980 budget has been officially estimated at $33.2 billion. A much more likely figure is $50 billion. Meanwhile, under the strain of supporting an accumulation of deficits beyond anything ever seen in world history, interest rates have gone through the roof. And the COST of servicing the Federal Budget has climbed to over $60 billion a year or more than $1 billion a week. The US debt, like the ravenous snake, is beginning to swallow its own tail.

Meanwhile, it may or may not be a coincidence that the great bull market ended in 1966–at around the time the monster deficits started to appear. I have always felt that the stock market, in its collective wisdom, recognized the inception of the "era of monster deficits" as the beginning of the slide for America. During that period, gold started tugging at its chains, the dollar started sliding, and the big stocks, the "backbone of America" stocks, topped out, many of them never to see those rarefied highs again.

Now here is a crucial point that I want all readers to understand. Debt is a by-product of inflation. **But at a certain point, debt becomes deflationary** This is so because all debt has to be serviced, and at a certain level the cost of servicing a rising pool of debt will sop up all available funds. The US is approaching that point now.

The US "prosperity" has been built on a tower of debt plus (obviously) the willingness of creditors to accept that debt. Therein lies the problem of the 1980's. The problem is, "Where is the US going to find the buyers who are willing to take on annual additions of say $20 to $50 billions of US debt?" If the debt is monetized, inflation results. The debt can only be sold directly (in the form of bonds) if the dollar is strong. Or finally–the debt can be held in check with balanced budgets.

Each of these paths presents major problems. But the biggest problem is this–the US is simply running out of people who will accept its credit. That has to lead to one result–a changed (lowered) standard of living in the US, since the current rate of debt creation CAN NOT BE SUSTAINED MUCH LONGER.

NOTES & QUOTES: Best cartoon of the year–Herblock's latest showing Bobby and Jack Kennedy in heaven. Bobby turns to Jack and says, "Teddy's running!" A pained Jack asks, "What's he done this time!"

* *

Remember Merrill Lynch's "thundering herd" of bulls charging across the plains? Have you noticed their current ads? A lone bull is standing in a cave looking out. The caption reads, "The fine art of finding shelter." The times are a 'changin'.

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The US Government may hate gold, but they still recognize the metal as an international favorite. Two kinds of "escape and evasion" kits are issued to US paratroopers and agents operating in hostile territory, and the two kits were recently offered for sale. The "Atlantic kit" contains a gold sovereign, two half sovereigns, a 20-franc gold coin, a 10-franc coin and three gold rings. The "Southeast kit" contains a gold chain, a gold pendant, two gold rings and a 21-jewel Swiss watch. What, no dollars?

* *

The two worst words of the late-1970's in my opinion are "viable" and (even more annoying) "affordable." I place both words in a special category which I term "lingo-babble."

* *

I've never been an admirer of the Shah. In discussing the Shah with a friend, I noted that the Shah was a murderer and that he had been responsible for torturing and killing thousands of people. "Yes," said my cynical friend, "but he's OUR murderer." At any rate, I suspect that in taking "our murderer" to our hearts, we have built up a large quantity of "bad Karma." Thus, I thought Carter made a huge mistake in allowing the Shah to come to the US (it's never too late to be true to one's convictions). And I suspect that the bad Karma is now emerging, if not exploding. In brief, I expect nothing good to come out of the Iranian situation.

* *

We're putting tile floors in two bathrooms and a patio of our new home. We bought the tiles and stacked up the boxes in the kitchen. Then we noticed where the tiles were made. One pattern came from Germany, one from Japan and the patio tiles came from Italy. I said to Paula, "I wonder if that isn't telling us something."

* *

A man I never met changed my life. His name was Dr. Frederick ("Fritz") Perls. He was the inventor of Gestalt Therapy. A book has just been published by Celestial Arts, Milbrae, Calif. It's entitled, "Fritz Perls, Here and Now" by Jack Gaines. The book is written in terms of interviews by dozens of people who knew, were treated by or who lived with this fabulous, unpredictable genius. Perl's wife, when asked to describe him, called him "half bum, half prophet." Many disliked him, many loved him, almost nobody disputed his brilliance. I recommend the book to everyone. It's fascinating and gives extraordinary insights into one of the giants of the 20th Century.

* *

In one of the most incredible statements of the decade, Treasury Secretary Miller told the Saudis that "the Carter Administration wouldn't mind if the Saudis took a bigger chunk of US Corporations" oil profits. If you don't believe it, here's a clip from the WSJ. The US Government's attack on the US oil companies is approaching the idiot stage. I ask myself, "Do we deserve to survive?"

By RICH JAROSLOVSKY
Staff Reporter of THE WALL STREET JOURNAL

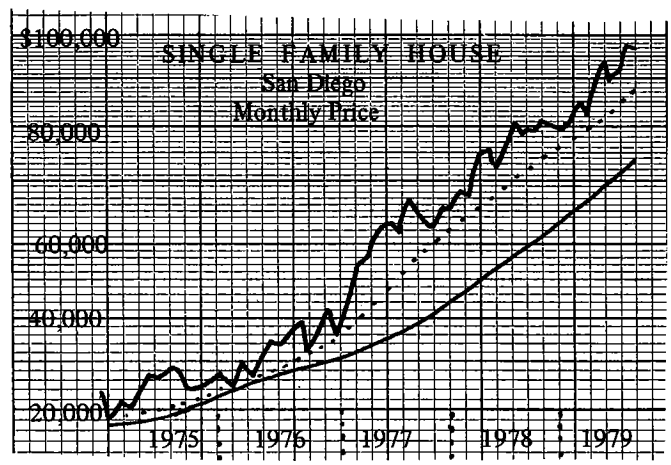
RIYADH, Saudi Arabia—U.S. Treasury Secretary G. William Miller is telling Saudi Arabian officials what they want to hear about American energy policies.

On the first leg of a three-nation Middle East trip, Mr. Miller told the Saudis that U.S. energy-conservation efforts are starting to work, and that President Carter is considering still more steps. The secretary also criticized U.S. oil companies, and indicated that the Carter administration wouldn't be upset if the Saudis take a bigger cut of their profits.

In an excellent piece in the Nov. 26 Wall Street Journal, Irving Kristol writes that the 1980's will differ from the 1970's in that the major economic problems for the US will stem from "things that happen elsewhere in the world." I've been saying this for years. Interest rates, oil prices, raw material prices, competition from Asia, these are the problems that I see looming large on the economic screen. In particular, competition in the 1980's should be much more intense. The US will have to produce more efficiently (higher productivity) if it wishes to survive as a major economic power.

* *

Everybody's talking about the "coming crash in housing prices." I follow an old rule that states that when the strongest item in a series goes, the bull market is over." California real estate has been about the strongest area of housing, and San Diego is about the hottest market in California (best weather, least smog). At any rate, if San Diego real estate is going, there's no sign of it yet. This chart (courtesy of friend Jon Strebler of Drexel Lambert) shows the monthly average sale price of a San Diego residence. The October price: $97,146. The 12-month moving average: $86,000, the 34 month MA is $72,000. That says it all.



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The T. Rowe Price Company has under its management billions of dollars worth of investments. Mr. Price was one of the early creators of the growth stock theory of investment, and his integrity and success in money management is second to none. For the past two years Mr. Price has been writing a column for Forbes Magazine. Last month he signed off. I thought some of his comments in his final column were as interesting as they were ominous. I include a few of his parting comments here.

> The current inflation differs from previous inflations in that there are additional built-in causes that have become permanent and most difficult to correct. Its inception dates back to the days of Franklin D. Roosevelt, his New Deal and the adoption of John Maynard Keynes' economic theory that, if the public can't or is unwilling to spend money fast enough to keep the economy at full employment, the government should make up the difference and spend it itself. All Administrations since Roosevelt have believed in deficit financing to lift the country out of a depression and to keep it from going into an economic depression.
>
> This inflation did not become serious until it began to accelerate in 1965. It differs from most previous inflations in

that it is worldwide. All capitalistic nations are experiencing it to a greater or lesser degree at approximately the same time and are bound to share in the ultimate disaster. So far our government is doing little to bring about the cures that I think are essential.

Uncontrolled inflation has always led to a boom and bust. There seems little likelihood that current inflation will do otherwise. There is no turning back once it gets out of control. After the boom comes the bust and a serious business depression. A serious business depression will create social revolution and confiscation of property of the "haves" by the "have-nots."

We are now in a new era where the investor is faced with the greatest risks in a lifetime. There is no safe investment. All securities possess varying degrees of risk.

Most of the popular growth stocks of the past with an annual compound earnings growth of 5% to 10% will now become less desirable for long-term investment.

Like Muhammad Ali, I like to quit while ahead. This is, therefore, the last of this series of articles for FORBES about investing for growth of income and market value. I wish I could bow out on a happy note. Unfortunately I cannot. As far as inflation and the economy are concerned, the worst is yet to come in this investor's view. ■

FORBES, OCTOBER 29, 1979

* *

A new book entitled "Running on Empty" says the wave of the US future will be bicycles and mopeds. The book predicts that gasoline will be over $3 by the time the life of today's new car has ended. Gas is $4.25 in Bulgaria, $3.38 in East Germany, $3.25 in Greece, $3.35 in Singapore and approaching $3.00 in France, India, Japan, S. Africa. The book further states that none of the other contenders, alcohol, liquid fuel from oil shale, or tar sands, will be cheap. I have checked out many mopeds and own what I think is one of the best, an Austrian Puch. I recommend them. They return about 125 miles per gallon, and I use my Puch whenever I can.

* *

I guess I should call this Letter my "debt issue." At any rate, this comment by Dr. Kaufman of Salomon Bros. may be the clue to the future. If what Kaufman predicts is correct, if we are faced with a debt rise to $10.2 trillion in the late-1980's, then we will have indexing of prices, steady inflation, and a perpetually high interest rate structure. We will also be faced with the "total debt society," a society in which almost all efforts will be spent simply paying off or servicing debt.

Debt will soar in the 1980s, an investment banker predicted.

Henry Kaufman, general partner and executive committee member of Salomon Bros., said total corporate and private debt outstanding in the United States will swell to $10.2 trillion by the the end of the 1980s, compared with about $3.8 trillion this year. He based the forecast on an 11% rate of growth in the gross national product, including inflation of 8% to 9% a year. "The misfortune is that financing high rates of inflation is at first a powerful economic stimulant, and only later becomes a heavy burden which makes it exceedingly difficult to reverse inflation without pain and hardship," Kaufman said in a speech to the American Council of Life Insurance in Chicago.

This is one catch. With a debt that is massive and still skyrocketing, the US is ill prepared to withstand a major recession. Why do I say that? A major recession means a major decline in earnings. Now it's one thing when a business with little or no debt stumbles and has a profitless year. But a business with a big debt must service that debt, come what may. In that case, a major recession can produce something far worse than a poor earnings statement and a dividend cut. Given a very high level of debt, a contraction in profits for a debt-laden corporation can mean bankruptcy.

Personally, I don't see how the US (Government, agencies, counties, cities, corporations, individuals) can continue to take on more and more debt without an "accident" occurring somewhere along the line. The accident could be a boom and then a toppling of the whole economic structure. The accident could be a mild recession that turns into a depression. The accident could be a miscalculation by the Fed. But today's debt structure will not hold together in the face of a major "accident." And that's the danger (fallacy) of a society in which debt is running out of control. Oh yes, there's one more accident that we should talk about. That's the case of a nation whose creditors will no longer hold its inflation-ridden paper. And that's the problem which we could easily face in the near future.

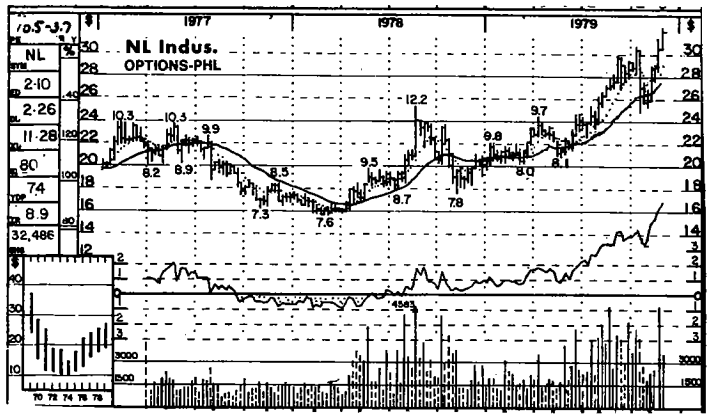
STOCKS: The market is very fragmented now, with certain groups acting well and others caving in. I include here three stocks which are acting considerably better than the market, and it is no coincidence that two of them are energy connected The lower line on these Mansfield weekly charts (26 Journal Square, Jersey City, NJ 07306) shows relative strength.

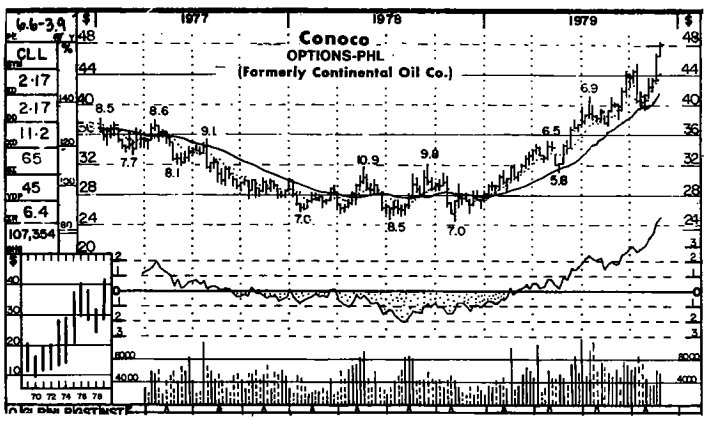
I must say, however, that I feel the whole energy segment of the market is too obvious. You don't have to be a genius to know that energy is where the action is going to be for years to come. For this reason, it is possible that the energy stocks have already discounted a fair portion of the good news. The other side of the coin is that the oil stocks are already the "whipping boys" of the energy crisis, and Washington is playing the "windfall profits" theme for all it's worth. Of course, the greatest windfall profit the world has ever seen is the taxes that Washington is wringing out of this nation. But there are never enough taxes to pay for Washington's spending, so the prospect of taxing big oil profits has every policitian (from non-oil states) salivating.

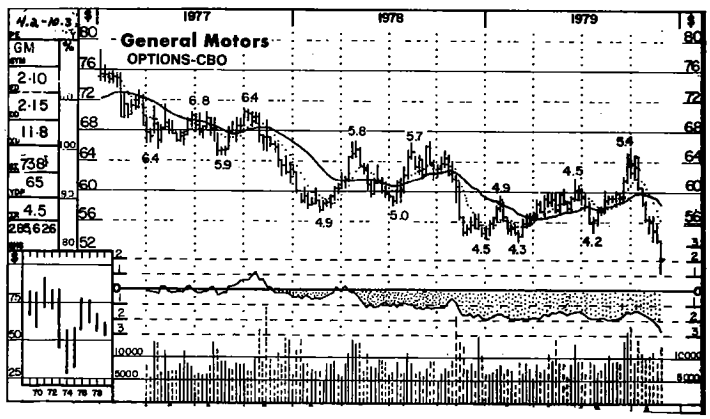
As I was studying the charts this week, I couldn't help noticing the sad performances of US Steel and GM. It's a testament to the change in the markets that Wall Street can hold together in the face of the slides in Steel and GM. Twenty or even ten years ago if these two giants had caved in as they have been doing,

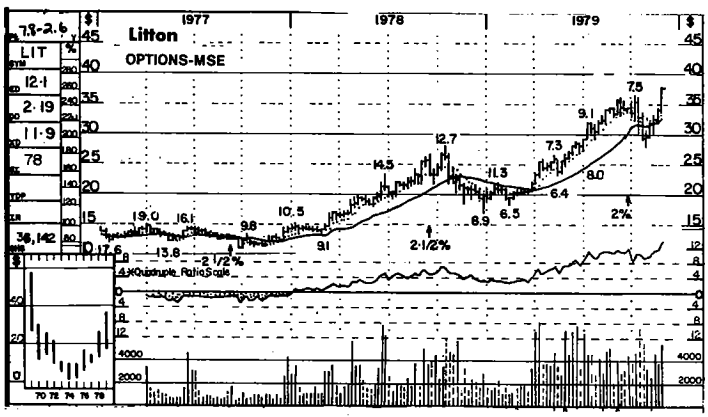
the market would have been in shambles. But there you are– a collapse in both stocks, and the market is still smiling hopefully. Nevertheless, I must say the GM and Steel action bothers me. The story told by these two stocks has to be momentous. We'll probably be hearing the real facts 3 to 6 months from now, and they won't be pleasant.

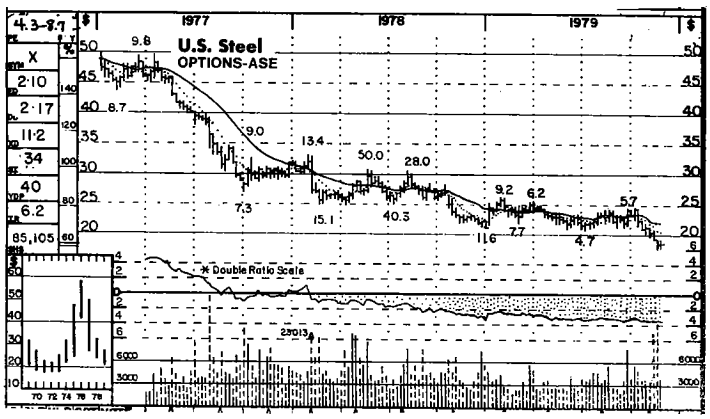
I continue to feel that this is a trader's market, and for the majority of my subscribers this means that buying stocks is going to prove to be an exercise in frustration. With interest rates still so high, my own urge to beat the market on a scale of 1 to 10 is around 3, and maybe that says it all.

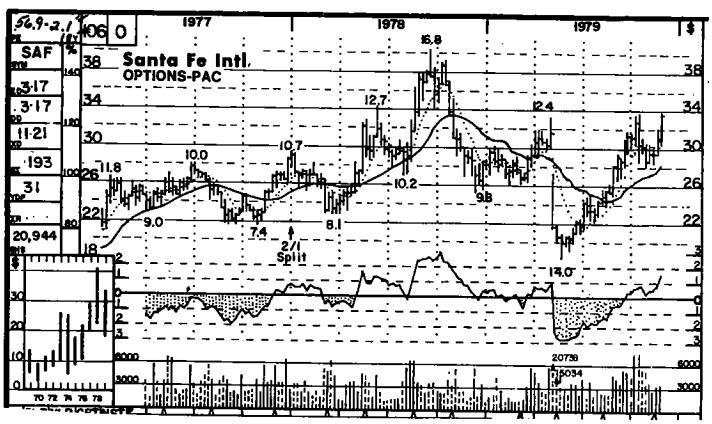












GOLD: Yesterday I was talking to a woman when she suddenly admitted, "You know, that last Letter you wrote really jolted me. I know what you were talking about." "What do you mean?" I asked. She continued, "The part about 'no island of safety any more'. I feel the same way. I don't seem to trust anything now, not cash, not high-priced gold or silver, not stocks, not bonds. I've never felt this way before, and it's confusing and frightening!" This woman was partly in the gold business, so I thought the statement was particularly interesting, coming from her.

Frankly, I thought a lot about what she said. It's a problem that must affect anybody in their 40's or over, anybody who has ever remembered a "sound dollar" or a dollar that was 'as good as gold." I have a strange conclusion regarding this woman's problem (and it is a lot of people's problem). My own feeling is that the nation and many of us have become too dependent on material safety. We've always felt that "If you've got bucks in the bank, you've got it made!" But wealthy people know that money doesn't buy inner security. Neither does gold, stocks, bonds or any other earthly possession.

In my experience, the only thing more exciting than falling in love or making money is following the path of truth. When you do that, when you cut all the self-deceit and lies and compromises out of your life, you will see that truth alone holds you up–it keeps you afloat like a life raft. Truth is stronger than anything material, and maybe that's what this country must learn if it is to survive. Of course, ultimately, real money, honest politics, decent government are a product of truth. But at this stage of the game, my opinion is that we're still bogged down in deceptions, lies, half-truths and political cowardice.

My little point & figure chart of gold tells a kind of truth. And, you see, that's the beauty of charts; they only deal with the facts, what actually has happened. To that extent they are pure truth. From what has happened, we try to infer what will happen. That doesn't give us much, but it's all we've got, and sometimes it works very well.

This is a 4 X 12 point and figure chart, which means that each box on the chart equals 4 points and only rallies or declines of a full 12 points or more are shown on the chart. With this kind of concentration (filtering out the minor moves), a big time span is shown on a small chart. And that's what we have here. But the chart is just as valid.

There are two main support areas for gold. The first is 368-372, the area of three previous bottoms. The three bottoms occurred as part of the huge structure that has been building over the past three months. The second support area is at about 340. This is the support offered by the bullish rising trendline, a trendline which has held in force ever since the 1976 low.

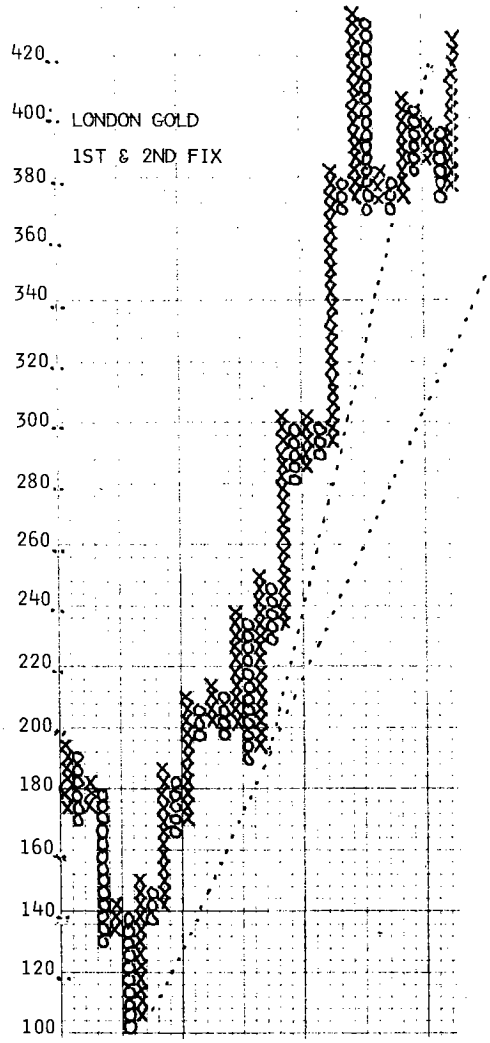
Last week gold gave a bullish signal when it advanced above the preceding 408 peak. This should put gold in line for an assault on the 440 area. If gold can better the 444 level, I would expect it to run up to or near 500 in a hurry.

There is much talk of a silver squeeze (see last Letter), and further talk of large interests taking delivery of a huge amount of silver. The upward pressure on silver (for whatever reason) is putting upward pressure on gold. The Iranian situation is also helping gold. Texas multi-millionaire Bunker Hunt is one of the silver players. He recently said that silver should sell at "one-fifth the price of gold." That would mean $80 silver, which I doubt we'll see, but in these wild and violent times, who knows?

One thing is clear. The precious metals are being strummed and buffeted by the big boys now, and the small traders are playing out of their league. You fool with gold and silver at your own risk now. I tell my subscribers to sit with their 10% to 15% of assets in gold coins and watch. That's all, because at this point the charts and my own concepts and preconceived notions about the precious metals are worth less than they were say 2 or 3 years ago.

I feel the same way about stamps and paintings, both of which I happen to follow closely. I can't believe what is happening in either category. A few weeks ago an American painting sold for a record $2.5 million. The art world was flabbergasted, because most people had never even heard of the artist, and those who did were even more amazed by the price that was paid.

In stamps (the world's most popular hobby) the so-called "investors" have now moved in. Stamps that I purchased like the 50-cent Zeppelin which sold for $50 two years ago is now



selling for $400. A good set of the 3 big Zeppelins that sold for $1000 5-6 years ago now sells for up to $8000. The older collectors are shaking their heads in disbelief. Where's the money coming from? Where is it all going to end?

And Wall Street fidgets and waits warily. "When is it going to hit us?" asks Wall Street, "We deserve our turn." Ah, the paradox, the spitefulness of the markets!

"Thank you, sir, and may the dollar once again become almighty." (Courtesy, NEW YORKER)

FOR NEW YORK SUBSCRIBERS: In accordance with the New York Investment Advisers Act, we have filed our Investment Advisor Statement and NY subscribers may obtain a copy of same upon request. A fee of $14 will be charged for xerox costs.

NEXT MAILING: December 19th